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# The role of international trade in the post-2015 development agenda

**Note by the UNCTAD secretariat**

*Executive summary*

Economic growth for transformation was narrowly treated in the Millennium Development Goals. Trade was confined to Goal 8 (develop a global partnership for development) and mainly referred to as a matter of market access and tariff reduction. The rationale for developing "further an open, rule-based, predictable, non-discriminatory trading and financial system" was not explicit. Therefore, in the context of the post-2015 development agenda, international trade should be seen an "enabler" for achieving a broad range of development goals through promoting inclusive and sustainable economic growth. When properly harnessed, the opportunities brought by international trade can be a powerful force for creating jobs, enabling efficient use of resources, providing incentives to entrepreneurs and ultimately improving standards of living in all countries. Trade helps generate economic conditions that are favourable for achieving development goals. But it is the conditions under which trade takes place and the coherence of trade policy with other policies that will catalyse the positive effects of trade. Therefore, beyond targets, goals and indicators, it will be important to focus on identifying the types of national policies and international contexts that would harness the enabling power of trade for development, and against that background, design a coherent framework in which targets and indicators are sustained with respect to the policy mix and conditions required to bring about the desired goals.

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## Introduction

1. The formulation of the United Nations post-2015 development agenda and sustainable development goals will enter into intergovernmental processes later in 2014. The sixty-ninth session of the United Nations General Assembly will launch formal negotiations on the contents of the agenda, with a view to agreeing on "a framework that: (i) is based on the three fundamental principles of human rights, equality and sustainability; and (ii) orients key goals along the four, highly interdependent dimensions of inclusive social development, environmental sustainability, inclusive economic development, and peace and security".[1,2] Up to the launching of the intergovernmental negotiations, deliberations on key issues continue in separate but interlinking tracks, including the Open Working Group on Sustainable Development Goals under the United Nations Conference on Sustainable Development (Rio+20) processes, the United Nations high-level political forum for sustainable development and issue-based or country-based consultations with all relevant stakeholders.

2. This note discusses the contribution of international trade as an enabler of inclusive economic growth and sustainable development, and suggests policy areas and flanking measures which could enhance the role of trade in the post-2015 development agenda.

## I. Trade as an enabler of inclusive and sustainable development

3. International trade is a powerful enabler of economic development. Empirical literature supports this with strong evidence that increased participation in international trade can spur economic growth, which itself is a necessary condition for broader development outcomes to be realized. By connecting global markets to developing-country producers and consumers, trade – both through exports and imports – provides a critical channel for the flow of finance, technology and services needed to further improve productive capacity in agriculture, industry and services. These are needed in turn for structural transformation of economies. A case in point is the recent development path demonstrated by developing countries in East Asia and South-East Asia. A fundamental factor behind their rapid economic growth has been their ability to strengthen competitive productive and export capacities, first in traditional agricultural and textiles/clothing sectors and then in labour-intensive manufactures which shifted at times swiftly into high-technology manufactures such as electronics. Their export-led growth was a result of strategic trade opening, but also of policies that were complementary to the enabling power of trade with its impacts on economic and social development.

4. Economic growth is a necessary condition for poverty reduction, particularly in low-income countries. When a country's gross domestic product (GDP) per capita is sufficiently large, poverty reduction may be largely a question of redistribution of income. In developing countries with low income levels, redistributive transfers alone are not sufficient for, or may even become adversarial to, poverty reduction. Poverty reduction in such cases requires economic growth in terms of enlarging the share of gains received by each member of the population, i.e. in terms of a higher output per worker, which is usually approximated by GDP per capita.

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[1] United Nations System Task Team on the Post-2015 United Nations Development Agenda, 2012, *Realizing the Future We Want for All: Report to the Secretary-General*. Available at http://www.un.org/en/development/desa/policy/untaskteam_undf/untt_report.pdf.

[2] Outcome document of the United Nations Conference on Sustainable Development, entitled "The future we want" (see General Assembly resolution 66/288, annex).

5. The impact of trade on national income can be called the "income channel". Trade can raise the economy's income-generating opportunities via, inter alia, a "vent for surplus".[3] Through the income channel, participation in international trade affects a wide range of development outcomes by influencing relative prices in the domestic economy. Income changes may affect the incentives facing particular groups when deciding whether or not to enter the formal labour force, which could generate significant impact on social inclusion, for example, as regards gender equality.

6. In addition to income channels, there are non-income channels linking trade and development outcomes. Trade can reduce the cost of goods and services that are not domestically available at reasonable prices, and increase quality and variety of such goods and services in the marketplace. A better and greater variety of imported input factors (e.g. fuel and raw materials, intermediate goods and machinery equipment) lowers production costs and may enable production which otherwise would not be feasible in the country. Improved access to essential goods and services such as medicines and vaccines, medical equipment, food, energy and environment-related goods generates direct developmental gains for consumers, as well as improves the cost-effectiveness of a given public expenditure on, for example, health care.[4] Also, as international trade transmits the environmental preferences of firms and consumers in world markets, trade can thus enhance the diffusion of environmental goods, services, technologies and sustainable and socially equitable methods of production across countries.

7. Clearly, the nexus connecting trade, economic growth and poverty reduction does not function automatically. Inclusive economic development and poverty reduction should be pursued as a deliberate objective of increasing participation in international trade. Trade already makes up a significant portion of the economies of the least developed countries (LDCs): the average trade-to-GDP ratio of these countries has risen from 27 (1986–1990), to 60 (2008–2012) out of 100.[5] Their annual growth of GDP was also high particularly during the period 2000–2011, at around 7 per cent per year compared to 3 per cent for developing countries as a whole.[6] However, reduction in poverty in LDCs lagged far behind that in developing countries as a whole. The rate of poverty in LDCs[7] in recent years remains significantly high – in many cases over 40 per cent of the population – compared to other developing countries whose rates range between around 10 per cent to less than 2 per cent.[8]

8. One explanation for this apparent malfunction of the trade–growth–poverty reduction nexus could be the export structure of low-income countries which is highly concentrated in a few sectors. The poor and marginalized groups in low-income countries are mostly in non-traded sectors. In the initial period of enhanced participation in international trade, income inequality may worsen as the gains from trade accrue to those engaged in traded sectors. This outcome is very often misconceived as an unwanted consequence of trade. But this is not an outcome induced by trade: it is induced, among

[3] Having access to international markets creates a "vent for surplus" by enabling the economy to make better (e.g. more profitable) use of the resources that were previously unused or underused due to low demand from the domestic market.

[4] For example, there is evidence that improving international trade logistics – which reduces trade costs – can help increase vaccination rates in developing countries, as specific handling procedures are required for these products.

[5] World Bank, 2013, World Development Indicators.

[6] UNCTAD Globstat database.

[7] Measured in terms of the population below the international poverty line, i.e. $1.25 a day in purchasing power parity.

[8] World Bank, 2013, World Development Indicators.

other reasons, by the fact that the Governments of low-income countries are not adequately equipped with the necessary financial or institutional capacity to put in place complementary measures that would facilitate the transmission of gains from trade to the poor. Low-income countries would benefit significantly from international support in these areas, and this is why a global partnership, in addition to national actions, is necessary in order for them to make the most of the development-enabling power of international trade.

## Limited treatment of international trade in the Millennium Development Goals

9. Participation in international trade enhances the economic environment which is favourable to achieving broader development goals such as poverty reduction, employment, food security, gender inclusiveness, health and environmental sustainability. The development-enabling role of trade, or for that matter the role of inclusive economic growth as a whole, is however not adequately reflected in the current United Nations Millennium Development Goals. Referring to international trade as "targets" under the Goal 8 (develop a global partnership for development), the Millennium Development Goals focus only on two aspects of trade policies, i.e.: (a) developing "an open, rule-based, predictable, non-discriminatory trading and financial system" (target 8.A); and (b) providing LDCs with enhanced market access to their exports, via tariff-free and quota-free market access, with a view to addressing their special needs (target 8.B). Both targets may be considered unfinished business of the Millennium Development Goals.

### Target 8.A: The trading system

10. As regards target 8.A, and notwithstanding the importance of an open, rule-based transparent and non-discriminatory trading system, Millennium Development Goal 8 failed to clearly elaborate how such a trading system interacts with, and is conductive to, development. To promote development it is imperative that issues and sectors of interest to developing countries be prioritized in the international trading system. Since this was precisely the reason for launching the Doha Round of the World Trade Organization (WTO) under the Doha Development Agenda, it is regrettable that the Round has not yet concluded 12 years after its launch. The WTO Ministerial Conference in Bali, Indonesia, in December 2013 was the first under the Doha Round that succeeded in concluding a number of accords, including the Agreement on Trade Facilitation. The Agreement is being viewed as a positive contribution towards facilitating international trade by removing unnecessary barriers and harmonizing related standards. It provides for flexibilities to developing countries in terms of phased implementation and the provision of technical assistance in the areas needed for full implementation. However, the length and complexity of the Doha Round, and the modest gains so far – notwithstanding commendable progress in Bali, has given impetus to a multiplicity of regional trade agreements and free trade agreements (FTAs), as well as other arrangements, which does not augur well for an open and transparent, rule-based multilateral trading system.

11. In part as a response to the difficulty of negotiating agreements at the multilateral level, bilateral, regional and interregional FTAs are becoming major instruments of trade policy in almost all countries, whether developed or developing. With over 300 of FTAs in force worldwide, double the number since 1995, the international trading system today is more complex and normatively fragmented than it was at the start of the Millennium Development Goals. It has become common practice for countries to be engaged in a number of different FTAs concurrently. Furthermore, because the formation of FTAs is principally driven by commercial interests, few of the most recent "mega" FTAs involve LDCs.

12. FTAs and other plurilateral arrangements pose both advantages and disadvantages for development. The new generation of FTAs, often referred to as deeper integration arrangements, encompass areas such as government procurement, investment, transfer of technology, intellectual property rights, environment, dedicated dispute settlement mechanisms, competition policies and mutual recognition agreements. This can benefit countries that have capacity to implement such deeper integration commitments. However, this may also lead to the marginalization of some countries within the international trading system should they be unwilling to join or unable to conform to the pace and depth of such arrangements. Moreover, FTAs (as plurilateral agreements) by definition cannot regulate areas which require the participation of all relevant members at the multilateral level. This is the case, for example, of domestic support to agriculture, an important policy area for developing countries which is not (and cannot) be addressed by FTAs.

13. The links between FTAs and development objectives, i.e. how to make FTAs work effectively as tools of development, require further analysis. Current research only suggests the need for in-depth assessment of the impacts of particular provisions and integration structures on trade, as well as on development outcomes such as poverty reduction, employment and technological progress through international transfers.

14. An additional aspect of the trading system which requires further analysis is the trade-off between the benefits from the binding of trade policy under multilateral and/or regional commitments, on the one hand, and the need for flexibility to adapt trade and development policies to national circumstances ("policy space"), on the other. There is some evidence that policy binding tends to increase trade and investment flows, as this creates a transparent and predictable environment for trade and foreign direct investment, and controls some rent-seeking behaviours in the domestic economy. However, for any policy reform to be effective, it needs to be tailored to country-specific needs and circumstances. Negotiation of FTAs between partners of asymmetric economic weight, as in the case of North–South FTAs, requires careful analysis to arrive at the right mix between policy binding and policy space. Special and differential treatment within multilateral and preferential agreements provides a certain degree of policy space, such as the exemption of LDCs from undertaking certain commitments.

**Target 8.B: Market access**

15. As regards target 8.B, the recent report tracking Millennium Development Goal 8 notes that 83 per cent of LDC exports to developed economies received duty-free market access in 2011, compared to just over 70 per cent in 2000.[9] While tariffs are generally much lower now than they were during the 1990s, concern with respect to market access still looms large in certain sectors. In developed country markets, tariff peaks and tariff escalation in sectors such as agriculture continue to pose significant barriers to the exports of many developing countries. Between 2000 and 2011, the average tariffs imposed by developed countries on agriculture and clothing – the main sectors of export interest to developing countries – were reduced only gradually, and still remain at around 8 per cent, compared to the average tariff of other industries which are at around 1 per cent.[10] Tariffs in the South (i.e. developing countries) are generally higher than those in the North. Thus South–South market opening can further enhance the growth of South–South trade which has been expanding greatly in recent years, due partly to a rapid increase in demand in the BRIICS – Brazil, the Russian Federation, India, Indonesia, China and South Africa – economies.

[9] *The Global Partnership for Development: The Challenge We Face – Millennium Development Goals Gap Task Force Report 2013* (New York, United Nations publication, Sales No. E.13.I.5).

[10] Ibid.

16. In addition, and perhaps more importantly, target 8.B ignores the fact that market access in international trade is no longer primarily determined by tariffs. Non-tariff measures, i.e. behind-the-border regulatory measures such as sanitary and phytosanitary measures and technical standards, increasingly restrict export flows particularly those from LDCs. Agricultural exports from low-income countries face the average tariff of 5 per cent in developed economies. When the trade-restrictiveness of non-tariff measures is incorporated in the form of a tariff equivalent, the average import barrier for a product group goes up to 27 per cent.[11] For example, to export an agricultural product to a developed country, a small farmer from an LDC would have to compete against a subsidized farmer from a developed country and obtain the required certifications from accredited laboratories, fully understand the complex tariff structures and how to use tariff rate quotas if any, find efficient and affordable transportation, navigate the border checking and inspection of the destination country, adhere to the private standards of the buyer in the destination country and so on. A mere reduction in tariffs may render liberalization meaningless in such a scenario. In the medium to long term, compliance with stringent standards and regulations in export markets can be associated with higher quality of production, and thus higher prices and value added, for developing country exporters. In the short term, however, non-tariff measures can directly reduce the competitiveness of exports from developing countries, as complying with technical or safety regulations overseas increases the fixed and sometimes variable costs of production.

17. Public policies to overcome challenges posed by non-tariff measures in export markets take two main forms: helping firms deal with the costs imposed by foreign standards by successfully upgrading their production processes; and building capacity in national and regional standards, including increasing developing country participation in international standard-setting bodies. It is important to note here that policy measures to overcome the impact of non-tariff measures in overseas market as well as streamlining non-tariff measures on the importing side can have a direct linkage with a country's broad development goals. This is so because the technical and safety standards of products, for instance, are intended primarily to cater to legitimate and country-specific concerns such as protection of consumer safety, health and the environment. For this reason, careful analysis may be required in order to assess whether the approach in recent years by many developing countries of opting to copy and adapt the technical and safety standards of important trading partners via FTAs, especially in North–South FTAs, will help.[12]

# II. Exploiting trade and development linkages

## A. Bridging trade and development

18. Despite the potential for complementarity of trade and development objectives, trade policy by itself is not sufficient for promoting inclusive development. As mentioned previously, the two sets of objectives – trade enhancement and inclusive development – may sometimes appear to conflict with each other, such as when income inequality within a country increases at the time when its economy is expanding via increased participation in

[11] UNCTAD, 2012, *Non-Tariff Measures to Trade: Economic and Policy Issues for Developing Countries* (New York and Geneva, United Nations publication).

[12] A recent study by Disdier et al. also suggests that the deep integration associated with standards provisions included in North–South FTAs expands trade between developing countries and the North, but at the expense of their trade with non-bloc Southern partners. (Disdier AC, Fontagné L and Cadot O, 2014, North–South standards harmonization and international trade, *The World Bank Economic Review*, 1–26.)

international trade. In such cases, the optimal policy response would be to maintain openness to trade while putting in place a range of complementary ("flanking") policies such as social safety nets and other tax and transfer policies.

19. There also exist a range of policies in key economic areas that may be envisaged as part of efforts to enhance trade and achieve development objectives at the same time. Economic policies – monetary and fiscal, employment, trade, investment, industrial, environmental, transport – and social policies – on education and training, population and health and social protection – need to reinforce each other and are instrumental in achieving the goals of inclusive and sustainable development.

20. The need for policy coherence at the national level, and a supportive trade framework at the international level, is particularly pronounced in the case of agriculture. One third of the world's population still obtains its livelihoods from agriculture, 8 out of 10 working poor live in rural areas and 870 million people are still undernourished. Notwithstanding the benefits that reduction of food waste and food loss could bring, the fact is that by 2050 an increase in global agriculture production of 60 per cent from 2005 levels will have to take place to feed a population of 9 billion people.[13] Therefore, in the post-2015 development agenda, crucial goals and targets related to poverty eradication, reduction of hunger and adaptation to climate change will probably remain unachieved if a positive interaction between trade and agriculture policies at the national level is not enhanced, and if the multilateral trading system continues to fail to address harmful subsidies and substantial distortions in agriculture production and trade.

## B. Services sectors and economic viability

21. Services sectors play an increasingly important role in enhancing economic growth, as well as in making economic growth inclusive. The area of transport, infrastructure and logistics can be taken as an example. Improving the connectivity of developing countries to world markets is essential not only for their competitiveness in international trade but also for inclusive distribution of gains from trade. Domestic transport costs drive a wedge between international prices and consumer prices in developing countries. If transport markets are not competitive, intermediaries absorb part of the potential gains from trade, thereby reducing trade's capacity to promote inclusive development.

22. The same applies to telecommunications services. Competitive markets in this sector promote innovative solutions. A good example is the use of cell phones for money transfers, payments and other financial activities, as in the case of the East African Community. These services have provided access to formal financial services for those that have been excluded from the formal banking system. Further harmonization and collaboration at the regional level in regulating mobile money through, e.g. region-wide competition policy, can expand intraregional use of technology, thereby contributing to regional economic growth.[14]

23. Remittances are a critically important source of funds for poverty and hunger alleviation and development. A study of 77 developing countries estimated that a 10 per cent rise in remittances led to a 3.1 per cent reduction in the percentage of the population

[13] Food and Agriculture Organization of the United Nations, 2013, *FAO Statistical Yearbook 2013: World Food and Agriculture* (Rome).

[14] UNCTAD, 2012, *Mobile Money for Business Development in the East Africa Community: A Comparative Study of Existing Platforms and Regulations* (Geneva, United Nations publication).

living on less than $1.25 a day.[15] Remittances are linked to mode of supply 4 (presence of natural personas) under the General Agreement on Trade in Services, as well as longer-term migration. In contrast to foreign direct investment, private debt and portfolio equities, remittances remained more stable during the 2008 crisis period; furthermore, they are often countercyclical with respect to the home economy, providing an important lifeline for the poor during downturns. In fact, remittances grew by an estimated 6.3 per cent in 2013 to reach $414 billion, well above total official development assistance.[16]

24. The competitive financial services sector is essential also to maximize benefits from workers' remittances, as these serve as critical important sources of finance for poverty and hunger alleviation and development. UNCTAD's *The Least Developed Countries Report 2012* states that the formal remittance channels for most LDCs are currently controlled by a small number of such service providers. The practice of "exclusive agreements", which are mostly to be found in African LDCs, stifles competition by preventing competitors from entering the market, which then results in high fees.[17] Globally, remittance costs are some 9 per cent. This percentage gets higher the smaller the amount sent and the lesser developed the recipient country. Rates within sub-Saharan African countries often exceed 20 per cent. The World Bank estimates that a reduction in remittance costs of 5 per cent would yield approximately $15 billion in savings. The report calls for promoting competition in this market on the one hand and addressing the regulatory issues on the other. Here, striking the right balance between competition and regulation would enhance the development benefits from remittances.

25. Overall, contributions to inclusive development especially in developing countries can be greatly enhanced by international trade in services. Trade in services has been resilient, providing higher income earning opportunities and creating jobs. This sector has grown more rapidly than trade in goods in the recent decade (2001–2012), at an average of 11 per cent at the global level, 14 per cent in developing countries and 10 per cent in developed countries. While countries can harness trade in services for both economic growth and sustainable development, developing countries need to ensure that the multiple characteristics of services sectors – and the potential for contributing positively to externalities that may result – are taken into account and that adequate regulations, institutions and policies are in place to achieve the desired outcomes.[18]

## C. Competition, trade and economic development

26. Competition policy enhances the capacity of developing countries to benefit more fully from trade opening. Competition policy and law ensure that markets remain open and competitive for efficient allocation of resources in the economy. Vigorous competition law enforcement can be a powerful policy tool to ensure that markets not only lead to allocative efficiency but also work for sustainable and inclusive development. One good example is South Africa where the Competition Act contributes to the country's national economic and social goals, such as employment creation and retention, equitable participation in the

[15] UNCTAD, 2011, *Impact of Remittances on Poverty in Developing Countries* (New York and Geneva, United Nations publication).

[16] World Bank, 2012, Remittance flows in 2011 – an update, Migration and Development Brief 18, 23 April.

[17] UNCTAD, 2012, *The Least Developed Countries Report 2012: Harnessing Remittances and Diaspora Knowledge to Build Productive Capacities* (New York and Geneva, United Nations publication, Sales No. E.12.II.D.18).

[18] UNCTAD, 2011, *Services, Trade and Development* (New York and Geneva, United Nations publication).

economy by small and medium-sized enterprises (SMEs) and a broader and more racially diverse spread of ownership.[19]

27. Anti-competitive practices and cartels have a harmful effect on consumers, especially the poor, through higher prices. A World Bank study shows that, in 1997, developing countries imported $54.7 billion worth of goods from industries, including cement, chemicals and metal, where companies were involved in price-fixing arrangements in the 1990s.[20] These goods represented 5.2 per cent of all imports to developing countries, which corresponded to 1.2 per cent of their combined GDP.

28. Competition policy may complement industrial and agricultural policies. Cartels and exclusionary anti-competitive practices negatively affect SMEs by either increasing their production costs or restricting their access to markets. For example, corporate concentration in agricultural inputs (e.g. seeds and agrochemicals) and at the processing and retailing end creates harmful effects on small agricultural producers. Competition authorities may play a role in the promotion of SMEs. For example, the Korean Fair Trade Commission provides support and advisory services to SMEs in their commercial relations with big retailers or manufacturers and implements measures in cooperation with other institutions to promote SMEs.

29. Competition law and policy may also address concerns in commodity markets, which are exposed to cartelization by buyers due to the insufficient negotiating power of smallholder farmers vis-à-vis the small number of buyers, normally transnational corporations. Buying cartels are observed in major commodity products, such as coffee, cotton, tea, tobacco, milk and fish which small farmers in many developing countries and LDCs heavily depend on as a major source of revenue.[21] In financial services, such as remittances and mobile payments, competition policy and law enforcement could ensure that these markets remain open and competitive, thereby contributing to inclusive development. This would benefit consumers in developing countries and LDCs where these services play an important role in empowering the lower-income segments of the population by providing them with financial resources at a lower cost (remittances) as well as access to formal financial services (mobile payments) to those who have been excluded from them.

30. The interventions of the Zambia Competition Commission in the cotton, horticulture, poultry and beef sectors provide good examples of how competition policy and law enforcement can achieve good results for sustainable development, especially in those sectors that benefit the poorest segments of society.[22] In the horticulture sector, the Commission, through merger control, was able to ensure competition and create more jobs in the domestic market, which then resulted in the promotion of Zambian exports and improved the country's competitiveness in the horticultural export market.

31. In addition to competition law enforcement, competition authorities have an advocacy role. They may advocate with other government institutions for the elimination of barriers to trade that restrict competition. In some situations, import competition is

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[19] TD/B/C.I/CLP/24/Rev.1.

[20] Levenstein M and Suslow V, 2001, Private international cartels and their effect on developing countries, Background paper for the *World Development Report 2001*, World Bank.

[21] Fox EM, 2008, Antitrust, economic development and poverty: The other path. In: Qaqaya H and Lipimile G, eds., *The Effects of Anti-competitive Business Practices on Developing Countries and Their Development Prospects*. United Nations, New York and Geneva: 179–206.

[22] Kaira T (2008). The role of competition law and policy in alleviating poverty – The case of Zambia. In: Qaqaya H and Lipimile G, eds., *The Effects of Anti-competitive Business Practices on Developing Countries and Their Development Prospects*. United Nations, New York and Geneva: 133–178.

restricted due to non-tariff measures, including product standards and industry standard codes. A very interesting example is from Norway, which removed various technical barriers to trade in artificial fertilizers, thereby introducing more import competition. This measure was urged by the Norwegian Competition Authority.

32. Competition policy at the regional level also ensures that countries that are members of regional trade areas can benefit more fully from market opportunities created as a result of such initiatives. For instance, commercial agreements between vertically related entities, such as manufacturers, wholesalers and retailers, can create anti-competitive impact by excluding potential producers and suppliers in the respective supply chain.[23] This type of vertical restraint within regional trade areas may prevent market integration and thus reduce potential gains from regional trade. To address this challenge, some regional arrangements between developing countries, including the West African Economic and Monetary Union and the Common Market for Eastern and Southern Africa, have put in place regional competition rules and institutions. Others in Africa, such as member States of the Southern African Development Community, and in Latin America, such as Chile, Colombia and Peru, have moved towards establishing regional cooperation mechanisms in handling anti-competitive practices in their respective regions.

## D. Trade and environmental sustainability

33. International trade may impact on the environment in general and on climate change in particular in a multifaceted way through (a) scale effects, resulting in increased economic activity; (b) composition effects leading to changes in the structure or patterns of economic activity; (c) the boost for and changes in technology; and (d) direct greenhouse gas emission effects, inter alia, from increased maritime, truck and air transport. The right mix of specific trade, investment, environment and other policy measures can optimize the multifaceted impact of trade to serve as a critical enabler for environmental sustainability. At the global level, improved access to environmental goods and services can provide further impetus to green investment and technology transfer that can accelerate adoption of less polluting technologies and processes.[24] At the national level, opportunities offered by a greening global economy stimulate economic diversification that creates jobs, raises income levels, builds infrastructure and improves living standards. As a result, trade places countries in a better position to advance their social, environmental and developmental objectives. International trade enhances the diffusion of environmental goods and services and environment-friendly production methods and processes across countries.

34. Sustainable trade in biodiversity-based goods and services is becoming a fast-growing green economy sector in which local and international value chains interact. It is estimated by the secretariat of the Convention on Biological Diversity that the global market for natural cosmetics is worth $26 billion, for natural beverages about $23 billion and for botanical products about $85 billion. Trade in many of these biodiversity-based products is known as biotrade. By adding substantial economic value to ecosystems, biotrade has motivated rural stakeholders to protect and sustainably manage biodiversity resources and their ecosystems, and at the same time to increase income through viably participating in international trade. For example, private sector stakeholders from Bolivia, Brazil, Colombia, Ecuador and Peru have integrated into over 15 value chains sourcing

[23] UNCTAD, 2005, *Exclusionary Anti-competitive Practices: Their Effects on Competition and Development* (Geneva, United Nations publication).

[24] An effort to enhance such access has recently been announced by a group of WTO members that represent over 80 per cent of world trade in environmental goods. (*Reuters*, 2014, Major trade powers pledge free trade in green goods, 24 January).

biotrade inputs, including natural food ingredients, pharmaceutical and cosmetic products, construction materials, flowers and foliage, and garments, in addition to ecotourism and handicrafts.[25]

35. As the world aims at reducing the threat of climate change, developing countries seek to put in place mitigation and adaptation measures, as well as take advantage of emerging trade and investment opportunities. An example is production and trade of renewable energy, including sustainably harvested biofuels. In Mexico for example, a recent UNCTAD study reveals that if waste residues from major agricultural products were used for the production of bioelectricity, bioethanol and biodiesel, between $2.2 and $4.1 billion in additional revenue would be generated by poor Mexican farmers.[26]

36. Another area that connects trade and sustainable development is organic agriculture which now commands a global market of nearly $70 billion. Around 75 per cent of the more than 1.8 million organic producers worldwide are farmers in more than 110 developing countries. Organic production offers poor farmers in developing countries who have access to international markets improved earnings, potentially lower costs for inputs and soil fertility that are sustainable over the long term.[27]

## E. The social dimension of sustainable development

37. Following the principles of the Rio Declaration, Agenda 21 and the Johannesburg Declaration, the outcome document of the United Nations Conference on Sustainable Development in 2012, entitled "The future we want", emphasizes the three dimensions of sustainable development (i.e. the social, economic and environmental dimensions) and specifically calls for their balanced integration, through inclusive economic growth, social development and environmental protection.

38. In addressing the social pillar and the social inclusiveness element of sustainable development, it is imperative to analyse the impact and potentials of trade and trade policy for achieving gender equality and the empowerment of women. In this context, it is important to recognize the role of the evolving concept of the "creative economy" as it demonstrates significant capacity as a development option to achieve economic growth in a socially inclusive manner, including the preservation of cultural diversity.

## F. Trade and gender inclusiveness

39. Economic policies, including trade policies, are not gender-neutral and may affect men and women differently. Trade policy has discrete impacts on women in all economic roles they play – as producers, consumers, taxpayers, entrepreneurs or users of public services. Assessing the effects that trade and trade policy may have on different segments of the population and identifying those who may be negatively impacted can help in putting in place the right strategies and the necessary flanking policies.

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[25] UNCTAD, 2012, *Trade and Biodiversity: The BioTrade Experiences in Latin America* (New York and Geneva, United Nations publication).

[26] UNCTAD, 2014, *Mexico's Agricultural Development: Perspectives and Outlook*, (New York and Geneva, United Nations publication).

[27] In 2007, UNCTAD worked with countries in the region to develop the East African Organic Products Standards, a framework which helped facilitate an increase in exports from $6 million in 2004, to over $42 million in 2012 in Uganda alone. See the presentation by Muwanga MK, 2013, Production standards and marketing of organic products from Uganda, available at http://ec.europa.eu/agriculture/events/2013/gi-workshops/uganda/session-3-muwanga_en.pdf.

40. UNCTAD's work on trade and gender has pointed to the multifaceted aspects of the interplay between trade and gender, showing that trade can create opportunities for women's empowerment and well-being, though it can also magnify existing gender-based inequalities. The relationship between gender and trade is indeed multidimensional and context-specific.

41. A case study on Lesotho shows how trade policy has particularly benefited women. The country's preferential access to the United States market in the apparel sector produced a fast expansion of supply and trade capacity, which in turn had a catalytic role in job creation for underprivileged and low-skilled women. However, the quality of female jobs created – low wages, hard working conditions and limited opportunities for skills development – still remains an important challenge for Lesotho. Thus, attention should be drawn to the vulnerability and long-term sustainability of a growth strategy centred on low value added work and dependent on preferential treatment access to a single market.[28]

42. Another case study on Cape Verde illustrates that a reciprocal tariff reduction between the European Union and Cape Verde may have important effects on women's well-being: simulations have shown that tariff reductions on agricultural imports will cause a fall in food prices, thus having a positive impact on poorer households (particularly female-headed households). However, tariff reductions are also likely to reduce government revenues available for the provision of public services, from which women in particular benefit. Specific policy interventions would therefore be necessary to mitigate the gender-differentiated effects of trade policies. This could include safety net programmes, proactive agricultural policies aimed at securing basic livelihoods and the expansion of sectors with a potential to improve the economic condition of women, such as tourism.[29]

43. A study on the Gambia maps women's participation in the fisheries sector. It shows that the expansion of the export-oriented fish-processing industry is likely to generate significant employment opportunities for women (who are 80 per cent of fish processors and 50 per cent of small-scale fish traders). However, as men traditionally dominate the export-oriented segment of the chain (whereas women are found more in domestic small-scale fish marketing and distribution), upgrading into a fish-processing industry may also magnify existing income disparities between men and women. Therefore policies geared towards upgrading the fisheries sector in the Gambia should acknowledge and address existing gender-based constraints to ensure that both men and women have equal access to upgraded facilities, as well as to resources and support services (training and extension, and marketing). Corrective measures may also be dedicated to promote and expand niche products that can generate value added for women (e.g. shrimp farming and oyster culture).[30]

## G. Trade and the creative economy

44. The creation, production and distribution of goods and services that use creativity and intellectual capital as primary inputs constitute a new and very dynamic sector in world trade. At the heart of the creative economy lie cultural industries, which comprise knowledge-based activities focused on cultural heritage, arts, media and design. They

[28] UNCTAD, 2012, *Who Is Benefiting from Trade Liberalization in Lesotho? A Gender Perspective* (New York and Geneva, United Nations publication).

[29] UNCTAD, 2011, *Who Is Benefiting from Trade Liberalization in Cape Verde? A Gender Perspective* (New York and Geneva, United Nations publication).

[30] UNCTAD and Enhanced Integrated Framework, 2014, *The Fisheries Sector in the Gambia: Trade, Value Addition and Social Inclusiveness, with a Focus on Women* (New York and Geneva).

include tangible products and intangible intellectual or artistic services, with creative content, economic value and market objectives.[31] The creative economy has a high potential for impacting on poverty, job creation (particularly for youth and socially vulnerable sectors), income generation, cultural endowment preservation, urban reviving and overall social cohesion. In 2011, world trade in creative goods and services reached $630 billion, posting an annual growth rate of 10 per cent since 2002. Thus policies to develop and better harness creative industries should be considered an integral part of new trade and development strategies. Several countries have been proactive in making creative industries a priority sector in national development plans, such as Brazil, China, Indonesia, Malaysia, the Republic of Korea, Singapore, Thailand and Turkey.

## III. Enabling the transformative agenda

45. The post-2015 development agenda is faced with social, economic and environmental challenges and seismic shifts that are much more acute than at the time when the Millennium Development Goals were negotiated. For instance, the process of globalization that accelerated in the past two decades has generated new economic realities including in the form of increased interconnectedness across countries, facilitated progress in information and communications technology and transport, increased ease in cross-border capital mobility, successive trade liberalization at various levels and evolution of global value chains in manufactured production and exports.[32] Changes in world demographic size and composition and climate change have induced higher and more volatile world food and energy prices and higher exposure and vulnerability to disasters.[33] No country will be left untouched by the impact of transformation on such a global scale.

46. Discussions thus far in the post-2015 development agenda have indicated that the agenda should be consistent with but go beyond the current Millennium Development Goals. The Millennium Development Goals, reflecting the needs and concerns of the time, succeeded in presenting a set of social ambitions as goals. They did not however suggest how to orient national and international policies and actions coherently towards arriving at such goals. Hence the negotiations on setting goals in the post-2015 development agenda need to move hand in hand with discussions on the means of implementation. This necessarily leads to the role of trade and trade policy.

47. International trade, while not a goal, is an enabler for achieving a broad range of development goals through inclusive and sustainable economic growth. When properly harnessed, the opportunities brought by international trade can be a powerful force for creating jobs, enabling efficient use of resources, providing incentives to entrepreneurs and ultimately improving standards of living in all countries. That is, trade helps generate economic conditions that are favourable for achieving development goals. In deriving the post-2015 agenda, it will be important to focus on identifying the types of national and international policies that would harness the enabling power of trade given its impacts on development and, in this context, design a framework which will enhance coherence among such policies.

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[31] UNCTAD and United Nations Development Programme, 2010, *Creative Economy Report 2010: Creative Economy – A Feasible Development Option* (United Nations publication).

[32] TD/B/60/2.

[33] United Nations System Task Team on the Post-2015 United Nations Development Agenda, 2012, *Realizing the Future We Want for All: Report to the Secretary-General*. Available at http://www.un.org/en/development/desa/policy/untaskteam_undf/untt_report.pdf.

48. UNCTAD continues its contributions to supporting member States in the formulation and implementation of the post-2015 development agenda and sustainable development goals.